

VZCZCXYZ0008  
PP RUEHWEB

DE RUEHDBU #0492/01 1001007  
ZNY CCCCC ZZH  
P 091007Z APR 08  
FM AMEMBASSY DUSHANBE  
TO RUEHC/SECSTATE WASHDC PRIORITY 0374  
INFO RUCNCIS/CIS COLLECTIVE PRIORITY  
RUEHBJ/AMEMBASSY BEIJING PRIORITY 0055  
RUEHIL/AMEMBASSY ISLAMABAD PRIORITY 0090  
RUEHBUL/AMEMBASSY KABUL PRIORITY 0117  
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 0063  
RUEAIIA/CIA WASHDC PRIORITY 0072  
RUEKJCS/SECDEF WASHDC PRIORITY

C O N F I D E N T I A L DUSHANBE 000492

SIPDIS

SIPDIS

DEPARTMENT FOR SCA/CEN

E.O. 12958: DECL: 04/09/2018  
TAGS: [EAID](#) [ECON](#) [EINV](#) [PREL](#) [PGOV](#) [TI](#)  
SUBJECT: TAJIKISTAN - SCA/ADAS SPRATLEN GETS A MIXED  
MESSAGE ON ECONOMIC ISSUES

Classified By: AMBASSADOR TRACEY A. JACOBSON, 1.4 (B) AND (D)

11. (U) Summary: SCA A/DAS Pamela Spratlen told the senior presidential economics adviser that Tajikistan's misreporting to the IMF had seriously damaged the GOTI's credibility, and Tajikistan needed to act quickly to repair it. Her interlocutor indicated he understood her message and was aware of the Government's serious mismanagement of economic and fiscal policy, but he was still focused on getting more aid from donors. He did not offer specific steps the GOTI would undertake to restore trust with the donor community, beyond cooperating with a Central Bank audit, nor offer ideas for how to improve the investment climate. End Summary.

We Know the Problems  
-----

12. (C) On April 2 SCA Acting A/DAS Spratlen met with Mahtlubon Davlatov, Presidential Adviser on Economic Affairs (and rumored to be the President's uncle). Davlatov gave an overview of the economic impact of the recent winter crisis, saying that the GOTI was still assessing the full scale of losses. Tajikistan was working with the World Bank on an action plan to avoid severe power shortages next winter, and to resolve the cotton debt. Davlatov then listed some of Tajikistan's financial sins, apparently trying to preempt expected criticism about misreporting to the IMF, Government spending priorities, and senior officials not being held to account for their misdeeds. He said Murodali Alimardon, whom President Rahmon appointed Deputy Prime Minister directly after his disastrous tenure as Central Bank Chairman, would be gone from government by the end of 2008. It was necessary to keep him in government until auditors could determine what had happened to all of the money the Central Bank had loaned out for cotton production; only Alimardon knew everything. Davlatov insisted that Alimardon had nothing to do with finance or banking any longer.

13. (C) Of \$286 million he said the Central Bank had borrowed from foreign banks for cotton investment, about \$200 million was from KazCommerceBank of Kazakhstan (the other creditors were DeutscheBank, and CommerzBank of Berlin; Tajikistan was offering KazCommerceBank state property in Dushanbe as partial compensation for the money lost in cotton.) Davlatov admitted that Alimardon was one of eight owners of KreditInvest, the main recipient of the Central Bank's loans of borrowed money, and that these eight owners together had 26 cotton processing plants around the country. Davlatov outlined the upcoming IMF mission, due to arrive April 17,

which would set terms for the audit of the Central Bank. He said that the accounting firm of Price-Waterhouse Coopers would not be allowed to participate in bidding on the audit contract, as it had failed to detect the latest misreporting.

Davlatov hoped that by going through the audit, staff monitoring program, and by repaying \$47 million owed to the IMF, Tajikistan would by the end of 2008 again be able to receive a Poverty Reduction and Growth Facility program from the IMF (i.e. additional financial assistance).

14. (C) In a surprisingly frank admission, Davlatov said "we know we have a problem" with large state-owned enterprises which do not pay market prices for the inputs they receive from the Government or their fair tax bills but instead built palaces and dachas for the President. He listed them: Talco (State aluminum monopoly), TajikGaz, Tajik Air, Barki Tojik (electricity monopoly), and the state Railroad company, and said the Tajik leadership knew that such practices had to stop. He pointed to government investment of \$30 million this year in the Rogun hydroelectric power station as an example of government spending for economic development. Davlatov said that Tajikistan needed support for its economic initiatives, and asked for forgiveness of a \$17 million debt owed to the United States (note: Tajikistan has requested forgiveness of this debt repeatedly for years. End note).

15. (C) A/DAS Spratlen and Ambassador noted that the \$17 million debt forgiveness would require an act of Congress, unlikely while Tajikistan was taking on more debt and had recently received debt relief under false pretenses from the IMF. A/DAS Spratlen said the United States relationship with Tajikistan was multidimensional, but that the IMF misreporting, and problems experienced by Comsup, Gerald Metals and AES in doing business in Tajikistan, had reduced

Tajikistan's credibility in the eyes of U.S. Government and businesses. She emphasized that the U.S. Government and private sector wanted Tajikistan to succeed, that Tajikistan was a front line state in the war on terror and that it had the potential to be a commercial gateway to Central Asia. But, she stressed that economic success would only become possible if the GOTI undertook reforms, created better business conditions and rebuilt the trust and credibility which it had lost. She added that investment in projects which were not commercially viable would not increase private sector confidence about doing business in Tajikistan, and said the GOTI needed to consider the impact its spending decisions had on its international credibility. Spratlen also pointed out that keeping Alimardon in a senior government post was very damaging to Tajikistan's credibility. She said that one important way to increase international trust in the GOTI was to implement freedom to farm. Spratlen and Ambassador told Davlatov that despite declaration by President Rahmon, farmers were still forced to plant cotton, and banks were forced to loan money only for cotton planting.

IFIs and UNDP - Pessimistic

16. (C) During an April 2 lunch with representatives of International Financial Institutions (IFI) - the Asian Development Bank, World Bank, International Financial Corporation, International Monetary Fund, and Aga Khan Development Fund - Spratlen asked whether Tajikistan was becoming a failed state. The IFI representatives did not agree with this term, but said the government was not demonstrating improvements in its ability to deal with future crises. The winter crisis had diminished the Government's political control somewhat, they said, noting that Tajik media more openly voiced criticism of the Government since the winter and there had been some small, isolated protests. But they did not see a near term threat to stability or President Rahmon's hold on power. They agreed that the Government of Tajikistan did not have the capacity to measure the economic impact of the last winter, and its statistics were not reliable.

¶7. (C) Discussion of the overall economic situation brought up two points about the business climate. First, political leaders and their family reached far down into the economy to grab profits from private businesses, down to the level of shops and small businesses. Second, investors were in greater danger than ever, as the Aga Khan representative observed, because the Government needed funds and successful businesses were a ready source. He added that the strategic question in Tajikistan's economic reform was how to convince the President that he had a personal stake in economic diversification; "We must convince him that controlling 30 percent of a \$100 pie is better than 90 percent of a \$10 pie."

Comment - The Talk, and the Walk  
-----

¶8. (C) Davlatov's readiness to beat us to the punch in describing the GOTI's financial governance failings suggests that our messages are starting to get through; he did not even try to tell us, as he until recently did, that all is improving in agriculture, or that spending on palaces is improving in agriculture, or that spending on palaces is reasonable. For the first time he admitted what we suspected, that Talco and other state-owned enterprises were paying for prestige projects such as the \$100 million Palace of the Nation, rather than supporting economic development. However, his plea for more debt relief suggests that the GOTI still hopes it can get something for nothing from the international community. It will require our constant engagement to ensure that Tajikistan will actually begin to walk the walk and reform the cotton sector, improve the investment climate, and rationalize the use of state industry revenue. End Comment.

¶9. (U) A/DAS Spratlen has cleared this cable.  
JACOBSON